



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	<b>02/23/00</b>	Bill No:	<b>AB 2158</b>
Tax:	<b>Property</b>	Author:	<b>Strickland</b>
Board Position:	<b>Support</b>	Related Bills:	<b>SCA 8 (1999)</b>

### **BILL SUMMARY:**

This bill would increase the homeowners' exemption from \$7,000 to \$8,750 for persons who are 62 years of age or older.

### **ANALYSIS:**

#### Current Law:

Article XIII, Section 3(k) of the California Constitution exempts the first \$7,000 of assessed value of an owner-occupied principal place of residence from property tax. This exemption is commonly referred to as the "homeowners' exemption." The Constitution gives the Legislature the authority to increase the amount of the homeowners' exemption, provided that:

1. Any increase is funded by increasing the "rate of State taxes" in an amount sufficient to reimburse local governments for property tax revenue loss<sup>1</sup> and
2. Benefits to renters, which under current practice is granted through the renters' tax credit, are increased by a comparable amount.

Section 218 of the Revenue and Taxation Code specifies eligibility for the exemption and sets the exemption in the amount of \$7,000 of full cash value.

#### Proposed Law:

This measure would increase, by 25%, the amount of the homeowners' exemption specified in Section 218 in the case of a claimant who is 62 years of age or older. This would effectively increase the amount of the homeowners' exemption from \$7,000 to \$8,750 of full cash value for senior citizens.

#### Background:

Over the years, numerous proposals have been before the Legislature to increase the amount of the homeowners' exemption. Those proposals used various methods, including increasing the amount of the exemption by a flat amount, indexing the exemption for inflation, and varying the exemption according to the year of purchase.

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<sup>1</sup> Article XIII, Section 25 requires that the state reimburse local government for the property tax revenue loss resulting from the homeowners' exemption.

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Previous legislative attempts are summarized in the table below.

Bill Number	Legislative Session	Author	Type
SCA 8	1999-2000	Johannessen	Increase to \$20,000; delete renter's credit parity
AB 2060	1997-98	Granlund	Increase to \$20,000
ACA 43	1997-98	Granlund	Increase to \$20,000
ACA 5	1991-92	Elder	Variable according to assessed value
ACA 31	1991-92	Frizzelle	Index for inflation by California CPI
ACA 47	1991-92	Jones	25% exemption; no assessed value cap
ACA 3	1989-90	Elder	Variable depending on year acquired
ACA 9	1989-90	D. Brown	25% exemption; \$250,000 assessed value cap
ACA 31	1989-90	Hannigan	15% exemption; \$150,000 assessed value cap
ACA 55	1989-90	Wright	Increase to \$48,000
ACA 1	1987-88	Elder	Increased to \$25,000 + indexing for inflation
ACA 25	1987-88	D. Brown	25% exemption; \$250,000 assessed value cap
AB 2141	1985-86	Klehs	20% exemption; \$50,000 exemption cap
AB 2496	1985-86	Cortese	Increased in years with General Fund Reserves
AB 3086	1985-86	Elder	Variable depending on year acquired
AB 3982	1985-86	La Follette	Increase for 1 <sup>st</sup> time home buyers
ACA 49	1985-86	Elder	Variable depending on year acquired

## COMMENTS:

1. **Sponsor and Purpose.** This bill is sponsored by the author in an effort to increase the amount of the homeowners' exemption for senior citizens. The author's press release on this measure states: "Our seniors have contributed to the betterment of our state for years. We should now give back to our seniors by providing them with this tax assistance. California's seniors are overdue for a tax relief. There is no better time to provide tax relief than during a year where our state is experiencing a massive budget surplus."
2. **Exemption Amount Unchanged For More Than 25 Years.** Since 1968, when the homeowners' exemption was first enacted, it has been provided in the same amount for all persons. The exemption was first provided in the amount of \$3,000 of full cash value and was increased in 1974 to its current level of \$7,000 of full cash value. Prior to the inception of the homeowners' exemption, veterans were eligible for the veterans' exemption which could be applied to their homes in the amount of \$4,000 of full cash value. When the homeowners' exemption was increased in 1974 from \$3,000 to \$7,000, veterans subsequently switched from the \$4,000 veterans' exemption to the \$7,000 homeowners' exemption available to any Californian.
3. **Provides Additional Annual Tax Savings of \$18.86.** The homeowners' exemption, in the amount of \$7,000 of full cash value, on average provides annual property tax savings of \$75.45. On average, this measure would increase the annual property tax savings to \$94.31 for senior citizens who own homes.

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4. **Constitution Permits Statutory Increases In the Amount of the Exemption.** The \$7,000 amount specified in the Constitution sets forth the *minimum* amount of the exemption. The Constitution provides a mechanism for statutory increases in the amount of the homeowners' exemption without requiring a constitutional amendment. The constitution specifies that any exercise of the Legislative authority to increase the homeowners' exemption is to be associated with an equivalent increase in the amount of the renters' credit. Presumably, it could be argued that the amount of the renter's credit for senior citizens would also be required to be increased. However, the renters' credit was suspended from the 1993 through the 1997 income tax years in accordance with budget agreements. It was restored in 1998 by AB 2797, a budget trailer bill. During this suspension period homeowners continued to receive the homeowners' exemption. Thus the State effectively abandoned the constitutional parity provision for this five year period.
5. **Other States, Counties, and Cities Provide Special Property Tax Exemptions for Senior Citizens.** In California, there are two programs to assist senior citizens with property tax relief. The Property Tax Postponement program, administered by the State Controller, permits persons to delay all or part of their property taxes. The Property Tax Assistance program, administered by the Franchise Tax Board, rebates a portion of property taxes based on a sliding income scale. However, both programs have income restrictions limiting participation.
6. **Late-Filing Partial-Exemption Provisions.** Conforming amendments would be necessary to increase the amount of the partial exemption provided to persons who miss the February 15 deadline to file a claim for the homeowners' exemption.

275. (a) If a claimant for the homeowners' property tax exemption fails to file the required affidavit with the assessor by 5 p.m. on February 15 of the calendar year in which the fiscal year begins, but files that affidavit on or before the following December 10, an exemption of the lesser of five thousand six hundred dollars (\$5,600) or 80 percent of the full value of the dwelling shall be granted by the assessor or in the case of a claimant who is 62 years of age or older, the lesser of seven thousand dollars (\$7,000) or 80 percent of the full value of the dwelling.

#### **COST ESTIMATE:**

With respect to property taxes, the Board would incur some minor absorbable costs in informing and advising local county assessors, the public, and staff of the law changes.

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**REVENUE ESTIMATE:****Background, Methodology, and Assumptions**

Existing property tax law provides for a homeowners' exemption in the amount of \$7,000 of the full value of a "dwelling," as specified. The state is required to pay subventions to counties for the homeowners' exemptions to offset the resulting county property tax loss. The total exempt value of the homeowners' exemption amounted to \$35,996,000,000 on 5,153,444 claims in 1998-99. The state reimbursement to the counties for 1998-99 totalled \$388,829,000 and the average reimbursement per claim is then \$75.45. Under this proposal, the average reimbursement would be increased by 25 percent x \$75.45, or \$18.86, for claimants who are 62 years of age or older.

The revenue impact of this proposal is difficult to pinpoint due to the lack of data on the distribution by age of the homeowners' exemption claimants. According to Department of Finance statistics as of July 1997, there were over 4.6 million people who were 60 years or older in California. For the purposes of this estimate, it is assumed that this closely approximates the number of people who are now 62 years or older. In the West, over 64 percent of people 65 and older are householders and the homeownership rate for householders 65 and older is about 80 percent, according to the latest estimates available from the U.S. Bureau of the Census. The estimated number of claimants that would be affected by this proposal is then:

$$4.6 \text{ million} \times 64\% \times 80\% = 2.36 \text{ million}$$

**Revenue Summary**

This bill would increase the state reimbursement for the homeowners' exemption by 2.36 million x \$18.86 or about \$44.5 million annually.

It is likely that this amount will grow over time due to the increased number of qualifying claimants as the California population ages.

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